

VZCZCXRO2520  
RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSL RUEHSR  
DE RUEHMD #0725/01 2021504  
ZNR UUUUU ZZH  
R 211504Z JUL 09  
FM AMEMBASSY MADRID  
TO RUEHC/SECSTATE WASHDC 0966  
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE  
RUEKJCS/SECDEF WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHC/DEPT OF LABOR WASHDC

UNCLAS SECTION 01 OF 02 MADRID 000725

SENSITIVE  
SIPDIS

STATE FOR EUR/WE; DRL/ILCSR M.MITTELHAUSER, A.IRONS; DOL  
FOR ILAB, B.BRUMFIELD; TREASURY FOR  
OIA/OEE/T.O'KEEFFE,D.WRIGHT; OSD FOR M.SADOWSKA

E.O. 12958: N/A  
TAGS: [ECON](#) [ELAB](#) [ETRD](#) [PGOV](#) [SP](#)  
SUBJECT: CONTENTIOUS LABOR REFORM TALKS TROUBLE ZAPATERO

#### SUMMARY

1. (SBU) Businesses, economists, and international observers have long called for more flexibility in Spain's labor market. Now they are using the economic crisis and an exceptionally high unemployment rate--over 18% and inching towards 20%--to press for structural changes. President Jose Luis Rodriguez Zapatero insists that any reforms be approved via the "social dialogue" process. Ongoing tri-partite negotiations between government, labor, and business representatives have yet to produce results. Labor and business are at loggerheads on most issues and the government is largely aligned with labor. Failure to reach an accord by the end of July, as the GOS is aiming for, will weaken the credibility of Zapatero's government. However, any agreement reached by the deadline is unlikely to contain significant reforms. END SUMMARY.

#### LABOR SNAPSHOT

2. (U) Unemployment is now at over 18% and projected to reach 20% by 2010. The OECD, IMF and other international organizations agree that Spain needs structural labor reforms. They argue that financial and administrative hurdles to dismissal, rigid collective bargaining structures, and wage indexation with inflation weaken Spain's competitiveness. Currently, employers must obtain government authorization for layoffs of 50 or more employees and provide 45 days severance per year of service (maximum 42 months). Rigid hiring regulations prompted the following comment by Social Security Administrator Octavio Granado: "since we are not able to hire anyone part-time, we hire them full-time, knowing they will be picking their noses half the day." Also at issue is the bifurcation of the workforce into permanent and fixed-term employees. The introduction in 1997 of fixed-term contracts with lower dismissal costs encouraged job creation but also produced instability in the labor market. While Spain's job growth outpaced its neighbors in the boom period, the economic crisis has hit fixed-term employees--predominantly youth, women, and immigrants--the hardest. Spain has shed more than 20% of jobs in this category over the last year.

3. (U) Calls for labor reforms have proliferated in the press over the last several months. In April, a group of 100 economists issued a paper recommending structural changes to increase flexibility in the labor market. Both the Governor of the Bank of Spain, Miguel Angel Fernandez Ordonez, and the President of the European Central Bank, Jean-Claude Trichet, came out in support of such reforms. Minister of Labor Celestino Corbacho publicly disagreed with Ordonez's position, proposing increased worker protections and economic reforms instead. In June, a group of 700 specialists,

supported by the two main unions--the General Workers' Union (UGT) and the Trade Union Confederation of Workers (CC OO)--issued a paper countering the group of 100,s proposals.

#### SOCIAL DIALOGUE PROCESS

14. (SBU) President Jose Luis Rodriguez Zapatero has insisted from the start that any labor reforms be approved via the "social dialogue" process. Tri-partite negotiations between government, labor, and business representatives began in 2006 and have intensified over the past year. With heightened public awareness and over ten meetings during the last two months, the GOS is under increasing pressure to reach an accord. All are agreed that Spain needs reforms to accelerate recovery and create sustainable economic growth. However, there is serious disagreement on the reforms required. Business, represented by the Confederation of Employers, Organizations (CEOE), wants changes in contracting and dismissal rules and improved flexibility in collective bargaining among other measures. They have asked for a 5-percentage-point reduction in social security contribution rates, which currently average just under 30%. Labor, represented by the unions, insists that Spain needs economic, not labor reform. They want to maintain worker protections and are seeking a program that would provide training and 420 euros a month for up to a year for unemployed workers whose benefits have expired.

15. (SBU) The GOS is largely aligned with labor in this process and asked CEOE to table its proposal for a single hiring contract with lower dismissal costs. Both Zapatero and Minister of Labor Corbacho are focused on worker

MADRID 00000725 002 OF 002

protections and say that now is not the time for significant structural reforms. As a compromise, the GOS offered to lower the social security contribution rates by half of one percentage point and to fund labor's requested training and benefits program for up to six months (at a total estimated cost of over 2 billion euros). CEOE suspended talks after this and a subsequent offer, which included provisions for autonomous community involvement in worker training programs. CEOE calls the government's offers insufficient and says it will not settle for a reduction of less than 3 percentage points. Labor wants the government to commit to its program for up to one year. They say any reductions in contribution rates must be temporary and reversible or it will bankrupt the social security system.

#### PROSPECTS FOR REFORM

16. (SBU) Economist Alvaro Espina Montero, formerly a senior official in the Ministry of Labor, and Professor Maria Angeles Fernandez of the Universidad Autonoma de Madrid told Econoff that while labor reform is greatly needed, it is unlikely to occur via the social dialogue process. President Zapatero has been pressing for an agreement before August, when most Spaniards take vacation, but the measures on the table do not amount to structural reform. CEOE representative Roberto Suarez Santos told Econoff that give-and-take is difficult in this process because labor is not proposing any substantive measures. While CEOE is amenable to delaying implementation of more difficult reforms, they are unwilling to settle for small measures. Suarez also says the GOS is not in a position to move the talks forward. Zapatero has little room to maneuver with his insistence on accord by consensus. His weakened political position makes him especially beholden to his major power base, the unions. Furthermore, Zapatero has left himself open to criticism from opposition party leader Mariano Rajoy, who says the GOS should implement needed reforms with or without the support of labor.

#### COMMENT

17. (SBU) This is a critical juncture for labor reform. All

eyes are on the social dialogue process, and the GOS has promised results before the end of July. Zapatero is counting on the training and unemployment programs to assuage public dissatisfaction with his government. If the social dialogue fails to produce an agreement before the end of July, the GOS will lose credibility. It will also be that much more difficult to reach consensus this fall. Second quarter unemployment figures--due to be released July 24--could make matters worse if they match projections. Both GOS and CEOE believe a general strike is a possibility. An agreement, on the other hand, is not likely to contain any structurally significant reforms, but it might improve the chances for more substantive reforms in the future. END COMMENT.  
CHACON